

# **PUBLIC DISCLOSURE**

August 1, 2022

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

1<sup>st</sup> Bank Yuma  
Certificate Number: 57298

2799 South 4<sup>th</sup> Avenue  
Yuma, AZ 85364

Federal Deposit Insurance Corporation  
Division of Depositor and Consumer Protection  
San Francisco Regional Office

25 Jessie Street at Ecker Square, Suite 2300  
San Francisco, California 94105

This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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## INSTITUTION RATING

**INSTITUTION'S CRA RATING:** This institution is rated **Outstanding**.

An institution in this group has an outstanding record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

**The Lending Test is rated Outstanding.**

- The bank's average net loan-to-deposit ratio is reasonable (considering seasonal variations and taking into account lending related activities) given the bank's asset size, financial condition, and assessment area credit needs.
- The bank made a substantial majority of its small business loans within its assessment areas.
- The geographic distribution of loans reflects excellent dispersion throughout the assessment areas.
- The distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration among businesses of different sizes.
- The bank did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the Lending Test rating.

**The Community Development Test is rated Outstanding.**

- The institution's community development performance demonstrates excellent responsiveness to community development needs in its assessment areas through community development loans, qualified investments, and community development services, as appropriate, considering the institution's capacity and the need and availability of such opportunities for community development in the institution's assessment areas.

## DESCRIPTION OF INSTITUTION

1<sup>st</sup> Bank Yuma (1BY) is an Arizona-chartered commercial bank headquartered in Yuma, Arizona, and is wholly-owned by Western Arizona Bancorp, Inc., a one-bank holding company. The bank received a Satisfactory rating at the prior FDIC CRA evaluation dated July 29, 2019, based on Interagency Small Institution Procedures.

1BY is a commercial lender focusing on small- and medium-sized businesses and individuals. There has been no change in the bank's primary business focus since the previous evaluation. 1BY operates four full-service branches in Yuma County: three in the city of Yuma and one in San Luis. The bank operates a fifth full-service branch in Nogales in Santa Cruz County. The bank has three branches located in moderate-income census tracts (CTs), one branch in a middle-income CT, and one branch in an upper-income CT. Additionally, the bank has a loan production office located in a moderate-income CT in Yuma.

The bank offers commercial real estate, construction and development loan products, commercial term loans, lines of credit, and farm loans. The bank also originates commercial loans guaranteed by the Small Business Administration. For consumers, the bank offers a variety of loan products including home mortgage loans, home construction and lot loans, automobile, recreational vehicle loans, home equity loans and lines of credit, and personal loans and lines of credit. The bank also offers personal and business credit cards through a third party. 1BY offers many consumer and business deposit products, including checking, savings, money market, and time deposit accounts. Other bank products include debit cards, safe deposit boxes, merchant payment processing services, education savings accounts, and individual retirement accounts. Alternative delivery systems include online banking, online bill pay, mobile banking, night depository boxes, and automated teller machines at four branch offices.

1BY had total assets of \$573.9 million as of March 31, 2022 based on information from Reports of Condition and Income including total loans and deposits of \$263.2 million and \$529.5 million, respectively. The following table illustrates the loan portfolio distribution by loan type.

<b>Loan Portfolio Distribution as of 3/31/2022</b>		
<b>Loan Category</b>	<b>\$(000s)</b>	<b>%</b>
Construction, Land Development, and Other Land Loans	22,061	8.3
Secured by Farmland	9,420	3.5
Secured by 1-4 Family Residential Properties	13,927	5.2
Secured by Multifamily (5 or more) Residential Properties	17,697	6.6
Secured by Nonfarm Nonresidential Properties	160,194	60.1
<b>Total Real Estate Loans</b>	<b>223,299</b>	<b>83.7</b>
Commercial and Industrial Loans	37,009	13.9
Agricultural Production and Other Loans to Farmers	3,071	1.2
Consumer Loans	649	0.2
Obligations of State and Political Subdivisions in the U.S.	0	0.0
Other Loans	3,787	1.4
Lease Financing Receivable (net of unearned income)	0	0.0
Less: Unearned Income	(1,140)	(0.4)
<b>Total Loans</b>	<b>266,675</b>	<b>100.0</b>
<i>Source: Reports of Condition and Income</i>		

Examiners did not identify any financial, legal, or other impediments that would limit the bank's ability to meet assessment area credit needs.

## DESCRIPTION OF ASSESSMENT AREAS

1BY designated two assessment areas within the state of Arizona: Yuma and Santa Cruz. The two assessment areas are described below:

- Yuma Assessment Area – Yuma County in southwestern Arizona which encompasses the Yuma, Arizona Metropolitan Statistical Area (MSA) #49740.
- Santa Cruz Assessment Area – non-metropolitan Santa Cruz County in southern Arizona which is part of Nogales micropolitan statistical area.

The bank's assessment areas have not changed since the previous evaluation. The designated assessment areas comply with the technical requirements of the CRA regulation and do not arbitrarily exclude any LMI areas. The following table shows the number of CTs and distribution of branch offices between 1BY's two assessment areas.

<b>Description of Assessment Areas</b>			
<b>Assessment Area</b>	<b>Counties in Assessment Area</b>	<b># of CTs</b>	<b># of Branches</b>
Yuma	Yuma County	55	4
Santa Cruz	Santa Cruz County	10	1
<i>Source: 2015 ACS Census Data, Bank Records</i>			

In 2020, the Santa Cruz assessment area's middle-income CTs were considered distressed as a result of both poverty and unemployment. Refer to the individual assessment area sections for additional information.

## **SCOPE OF EVALUATION**

### **General Information**

This evaluation covers the period from 1BY's prior evaluation dated July 29, 2019 to the current evaluation dated August 1, 2022. The bank moved to an Intermediate Small Institution on January 1, 2019, and examiners used Interagency Intermediate Small Institution Examination Procedures to evaluate its CRA performance. Examiners relied on information from the following sources: public loan and financial information; 2015 American Community Survey (ACS) Census data; 2019, 2020 and 2021 D&B business demographic data; community contacts; and bank records.

Examiners used full-scope examination procedures for the Yuma assessment area. This assessment area is given more weight in the evaluation as it contains the substantial majority of bank branches, loans, and deposits. Examiners used limited-scope examination procedures for the Santa Cruz assessment area as full-scope examination procedures were used at the previous examination to evaluate this assessment area.

### **Activities Reviewed**

Examiners determined that 1BY's major product line is small business lending. This conclusion primarily considers the bank's business strategy, loan portfolio composition, and lending activity during the evaluation period. According to the bank's loan trial balance, commercial lending is 1BY's primary lending focus. There has been no change to the business strategy since the previous evaluation. The bank collects small business loan information; however, they are not required to collect this information and do not report the data. The bank originated a nominal number of mortgage and small farm loans during the review period; therefore, these products are not reviewed in this evaluation.

Bank records indicate that the lending focus and product mix were not consistent throughout the evaluation period. Small business lending activity increased by number and dollar volume compared to the prior evaluation; therefore, three years of lending activity will be presented during this evaluation. The significant increase in lending is largely attributable to the effects of the COVID-19 pandemic, such as low interest rates and the SBA Paycheck Protection Program (PPP).

Examiners analyzed the universe of small business loans originated from January 1, 2019 through December 31, 2021. During the review period, 1BY originated 631 small business totaling \$94.8 million. The following table shows the number and dollar volume of small business loans originated by year.

Small Business Loans Reviewed		
Year	Number of Loans	Dollar Volume (000s)
2019	86	\$23.458
2020	334	\$37.726
2021	211	\$33,591
<b>Total</b>	<b>631</b>	<b>\$94,775</b>
<i>Source: Bank Records</i>		

Examiners reviewed the number and dollar volume of small business loans under the Lending Test. While both the number and dollar volume of loans are presented in the evaluation, examiners emphasized performance by number of loans as it is a better indicator of the number of businesses served. Examiners compared the bank's lending performance with 2019, 2020, and 2021 D&B data, 2015 American Community Survey (ACS) Census data, and the previous CRA Performance Evaluation.

The evaluation of community development activities included all qualified activities between July 29, 2019 and August 1, 2022. The evaluation of community development activities is limited to those loans, qualified investments, and services for which bank management could demonstrate the activity meets the primary purpose of community development. Examiners evaluated community development activities based on the bank's financial capacity as well as the qualitative impact to the assessment area. The bank's previous evaluation did not include community development activities. 1BY has no similarly situated institution for comparison during this evaluation period.

## CONCLUSIONS ON PERFORMANCE CRITERIA

### LENDING TEST

1BY demonstrated excellent performance under the Lending Test. While performance under Loan-to-Deposit Ratio and Borrower Profile is reasonable, excellent performance under the Geographic Distribution along with Assessment Area Concentration support this conclusion.

#### Loan-to-Deposit Ratio

The bank's average net loan to deposit ratio is reasonable, given the institution's size, financial condition, competition, and assessment area credit needs. The bank's average net loan to deposit ratio is 61.4 percent during the 11 quarters from September 30, 2019, to March 31, 2022. The ratio ranged from a high of 88.6 percent as of December 31, 2019, to a low of 49.7 percent as of March 31, 2022. The ratio remained relatively stable during the evaluation period with some seasonal fluctuations. No other institutions have a similar asset size, lending portfolio, and geographic location as 1BY; as a result, examiners have no institutions to use for comparisons for 1BY's performance.

#### Assessment Area Concentration

1BY originated a substantial majority of its small business loans within the bank's assessment areas. The following table shows the bank's performance by product and year.

Lending Inside and Outside of the Assessment Areas											
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)	
	Inside		Outside			Inside		Outside			
	#	%	#	%		\$ (000)	%	\$ (000)	%		
Small Business											
2019	79	91.9	7	8.1	86	20,593	87.8	2,866	12.2	23,459	
2020	301	90.1	33	9.8	334	32,141	85.2	5,585	14.8	37,726	
2021	188	89.1	23	10.9	211	27,393	81.5	6,198	18.5	33,591	
Subtotal	568	90.0	63	10.0	631	80,127	84.5	14,649	15.5	94,776	
Total	568	90.0	63	10.0	631	80,127	84.5	14,649	15.5	94,776	
Source: Bank Data											
Due to rounding, totals may not equal 100.0%											

### **Geographic Distribution**

Overall, the bank's geographic distribution of loans reflects excellent dispersion throughout the assessment areas. The bank's excellent performance of small business lending in the Yuma and Santa Cruz assessment areas support this conclusion.

### **Borrower Profile**

The distribution of borrowers reflects, given the demographics of the assessment areas, reasonable penetration among businesses of different revenue sizes. The bank's reasonable performance of small business lending in the Yuma and Santa Cruz assessment areas support this conclusion.

### **Response to Complaints**

The bank has not received any CRA-related complaints since the previous CRA evaluation; therefore, this criterion did not affect the Lending Test rating.

## **COMMUNITY DEVELOPMENT TEST**

The bank's community development performance demonstrates excellent responsiveness to the community development needs of its assessment area through community development loans, qualified investments, and community development services. Examiners considered the institution's capacity as well as the availability and need of such opportunities. Although the bank utilizes all three community development activity types, community development lending was the primary driver for the overall conclusion. Moreover, the substantial amount of donations demonstrates leadership in responding to the community needs for low- to moderate-income individuals in the assessment areas. Performance in both the Yuma and Santa Cruz assessment areas is consistent with this conclusion.

## **Community Development Loans**

The bank originated 78 community development loans totaling \$14.7 million, equal to 3.1 percent of average total assets and 5.5 percent of average total loans during the review period. The community development loans addressed affordable housing, community services, economic development, and revitalization and stabilization efforts. While there are no similarly situated institutions to compare with the bank, 1BY's community development lending represents strong responsiveness to opportunities and credit needs within the assessment areas. The institution made 63 community development loans totaling \$8.2 million as part of the PPP in response to coronavirus pandemic. The following table shows the bank's community development loans originated during the review period by year and purpose. Refer to the Yuma assessment area for notable examples.

<b>Community Development Lending</b>										
<b>Activity Year</b>	<b>Affordable Housing</b>		<b>Community Services</b>		<b>Economic Development</b>		<b>Revitalize or Stabilize</b>		<b>Totals</b>	
	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>
2019	1	717	3	1,600	0	0	1	10	5	2,327
2020	0	0	3	1,600	63	8,193	1	10	67	9,803
2021	0	0	3	1,600	0	0	1	10	4	1,610
YTD 2022	0	0	1	950	0	0	1	10	2	960
<b>Total</b>	<b>1</b>	<b>717</b>	<b>10</b>	<b>5,750</b>	<b>63</b>	<b>8,193</b>	<b>4</b>	<b>40</b>	<b>78</b>	<b>14,700</b>
<i>Source: Bank Data</i>										

## **Qualified Investments**

1BY made 40 qualified donations totaling approximately \$1.2 million, equal to 0.2 percent of average total assets and 1.4 percent of average total securities during the review period. There were no community development investments made due to limited opportunities for investment in the assessment area. Although, there are no similarly situated institutions to compare with the bank, 1BY's qualified donations represents strong responsiveness to opportunities and credit needs within the assessment areas. The following table shows the bank's qualified donations. Refer to the Yuma assessment area for notable examples.

<b>Community Development Donations</b>										
<b>Assessment Area</b>	<b>Affordable Housing</b>		<b>Community Services</b>		<b>Economic Development</b>		<b>Revitalize or Stabilize</b>		<b>Totals</b>	
	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>
<b>Total Qualified Donations</b>	<b>4</b>	<b>20</b>	<b>36</b>	<b>1,172</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>40</b>	<b>1,192</b>
<i>Source: Bank Data</i>										

## **Community Development Services**

During the evaluation period, 4 bank officers provided 1,022 hours of financial expertise or technical assistance as members of the Board for 4 economic development-focused organizations

and two community service non-profit organizations. The community development service activities helped support community services and economic development categories.

1BY's overall responsiveness to community development services is strong considering assessment area needs and available opportunities during the review period. Refer to the Yuma assessment area for notable examples.

## **DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

The bank's compliance with the laws relating to discrimination and other illegal credit practices was reviewed, including the Fair Housing Act and Equal Credit Opportunity Act. Examiners did not identify any discriminatory or other illegal credit practices.

## **YUMA ASSESSMENT AREA – Full-Scope Review**

### **DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE YUMA ASSESSMENT AREA**

1BY is headquartered in and operates four full-service branches in this assessment area, which consists of Yuma County and is located in the southwest corner of Arizona. Two branches are in a moderate-, one in a middle-, and one in upper-income CTs. Based on 2015 American Community Survey (ACS) Census data, the Yuma assessment area consists of 55 CTs reflecting the following income designations:

- 0 low-income
- 15 moderate-income
- 25 middle-income
- 12 upper-income
- 3 no-income designation

The bank originated 458 small business loans totaling approximately \$59.7 million within the Yuma assessment area. The Yuma assessment area accounts for the following:

- 80.0 percent of the bank’s branch network,
- 84.6 percent of the total CTs within the bank’s assessment areas,
- 85.2 percent of the bank’s deposits, and
- 80.6 percent by number and 74.6 percent by dollar volume of the bank’s small business loan sample in the evaluation period.

#### **Economic and Demographic Data**

The following table illustrates demographic, housing, and business information within the Yuma assessment area.

Demographic Information of the Assessment Area						
Assessment Area: Yuma						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	55	0.0	27.3	45.5	21.8	5.5
Population by Geography	202,987	0.0	32.9	42.0	24.8	0.3
Housing Units by Geography	89,330	0.0	26.8	48.2	24.9	0.0
Owner-Occupied Units by Geography	48,081	0.0	25.7	47.0	27.3	0.0
Occupied Rental Units by Geography	22,558	0.0	39.5	38.2	22.3	0.0
Vacant Units by Geography	18,691	0.0	14.5	63.6	21.9	0.0
Businesses by Geography	12,332	0.0	27.8	38.7	33.5	0.0
Farms by Geography	555	0.0	21.1	48.8	30.1	0.0
Family Distribution by Income Level	54,231	20.0	19.1	19.6	41.3	0.0
Household Distribution by Income Level	70,639	22.0	17.8	18.8	41.5	0.0
Median Family Income MSA - 49740 Yuma, AZ MSA		\$44,088	Median Housing Value			\$112,634
			Median Gross Rent			\$841
			Families Below Poverty Level			17.6%
Source: 2015 ACS and 2021 D&B Data Due to rounding, totals may not equal 100.0% (* ) The NA category consists of geographies that have not been assigned an income classification.						

According to 2021 D&B data, there are 12,332 businesses in the assessment area. Gross annual revenues (GAR) reported for these businesses are as follows:

- 86.1 percent have revenues of \$1 million or less
- 3.2 percent have revenues of over \$1 million
- 10.7 percent have revenues unknown

Employment percentages are highest in three primary sectors that include services at 33.7 percent, retail trade at 11.6 percent, and finance, insurance, and real estate at 10.1 percent. Further data shows that 62.4 percent of assessment area businesses have four or fewer employees with 61.4 percent operating from a single location.

Although Yuma's economy is supported by a strong agriculture, manufacturing and transportation also contribute as important drivers of the area economy. According to Moody's Analytics as of March 2022, the local economy has stalled. The inflation with sky-high crop process have sent farm revenues soaring. However, farmer's profit margin will come under pressure as costs of fertilizers and energy resources for farming increases. While Yuma had high unemployment rates in recent months despite continued declines statewide and nationally, Yuma's top two employers, Yuma Proving Grounds and the Marine Corps Air Station Yuma, will be pillars of employment stability. Housing prices are rising faster than the national average. While retirees surged the migration to Yuma, younger residents are leaving in search for higher paying jobs. However, the

rise of remote work environment will enable Yuma to retain or even attract young workers. Economic strengths in the Yuma assessment area consist of proximity to Southern California and Mexico, which aids the tourism and transportation industry; the growing manufacturing sector; and undervalued single-family housing market. Weaknesses include few high-paying jobs and high poverty rate, low educational attainment, and below-average worker productivity. Top employers in the area include U.S. Marine Corps Air Station, U.S. Army Yuma Proving Ground, Yuma Regional Medical Center, and Walmart Inc.

### **Competition**

The market for financial services in the assessment area is moderately competitive. According to the FDIC Deposit Market Share data as of June 30, 2021, 7 financial institutions operate 23 full-service branches within the assessment area. Of these institutions, 1BY ranked 3<sup>rd</sup> with a 15.0 percent deposit market share. Wells Fargo Bank, NA and JP Morgan Chase ranked 1<sup>st</sup> and 2<sup>nd</sup>, respectively. No comparable financial institution operates within the assessment area.

### **Community Contact**

Examiners interviewed a community contact with an organization that promotes economic development in the Yuma assessment area. The organization acts as an arbitrator with a local and the state public agencies for business loan grant programs. This organization is a Grantee of Foreign Trade (FTZ 2199) and partners with businesses to obtain FTZ status for every size of business. The contact stated that Yuma is the top producer of agriculture and is responsible in supplying 80 percent of winter leafy vegetables while also being the largest producer of crops in Arizona. Moreover, Yuma is home to two of the largest military installations in the country. The U.S. Army Yuma Proving Grounds is the nation's premier ground and weapons testing facility. Marine Corps Airstation-Yuma is the country's foremost Marine Air Base.

The contact further stated that manufacturing and transportation continue to be the important drivers of the area economy. Yuma became a strategic location for prominent manufacturing operations on the west coast and offers quality jobs through renewable industries programs designed to stimulate new investments in manufacturing and of renewable energy companies including solar, wind, biofuel, geothermal, and other renewable technologies. It is also a natural transportation hub with over 52 million consumers within a one-day truck haul east/west via Interstate 8 or north/south via US Highway 95 because of its logistic location bordering four states and two countries. The contact stressed that there continues to be a need for small business loans, especially microloans for start-up businesses, and capital is a constant need for both new and growing businesses.

### **Credit and Community Development Needs and Opportunities**

Based on economic information, local demographics, and the community contact, examiners determined that there continues to be a need for small business loans, especially microloans for start-up businesses, and capital is a constant need for both new and growing businesses. Further, there is a strong credit need for revolving lines of credit and deferred loan program.

## **CONCLUSIONS ON PERFORMANCE CRITERIA IN THE YUMA ASSESSMENT AREA**

### **LENDING TEST**

1BY's Lending Test performance in this assessment area is excellent. This conclusion is primarily supported by excellent geographic distribution and reasonable borrower profile performance for small business lending.

#### **Geographic Distribution**

The geographic distribution of loans reflects excellent dispersion throughout the assessment area. This performance is consistent with the prior evaluation. The following table illustrates the bank's small business lending performance by CT income category.

Geographic Distribution of Small Business Loans Yuma Assessment Area					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Low					
2019	0.0	0	0.0	0	0
2020	0.0	0	0.0	0	0
2021	0.0	0	0.0	0	0
Moderate					
2019	28.1	22	41.5	7,651	51.9
2020	28.7	83	31.4	6,644	24.6
2021	27.8	40	28.4	4,994	27.7
Middle					
2019	39.1	12	22.6	3,142	21.3
2020	38.4	79	29.9	6,430	23.8
2021	38.7	46	32.6	5,113	28.3
Upper					
2019	32.8	19	35.8	3,937	26.7
2020	32.9	102	38.6	13,920	51.6
2021	33.5	55	39.0	7,942	44.0
Not Available					
2019	0.0	0	0.0	0	0
2020	0.0	0	0.0	0	0
2021	0.0	0	0.0	0	0
<b>Totals</b>					
<b>2019</b>	<b>100.0</b>	<b>53</b>	<b>100.0</b>	<b>14,730</b>	<b>100.0</b>
<b>2020</b>	<b>100.0</b>	<b>264</b>	<b>100.0</b>	<b>26,994</b>	<b>100.0</b>
<b>2021</b>	<b>100.0</b>	<b>141</b>	<b>100.0</b>	<b>18,048</b>	<b>100.0</b>
Source: 2019, 2020 & 2021 D&B Data; Bank Data. Due to rounding, totals may not equal 100.0%					

In moderate-income geographies, the bank's record of lending for 2019, 2020, and 2021 exceeded the percentage of businesses in those CTs. The bank's overall lending performance in moderate-income tracts shows a decline from the previous examination where the bank originated 43.6 percent by number of loan originations in 2018.

### **Borrower Profile**

The distribution of borrowers reflects, given the demographics of the assessment area reasonable penetration among businesses of different revenue sizes. The following table shows the borrower distribution by revenue size.

Distribution of Small Business Loans by Gross Annual Revenue Category Yuma Assessment Area					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000					
2019	81.6	33	62.3	7,257	49.3
2020	85.3	43	16.3	5,467	20.3
2021	86.1	62	44.0	8,538	47.3
>\$1,000,000					
2019	5.1	20	37.7	7,473	50.7
2020	4.0	40	15.2	7,782	28.8
2021	3.2	31	22.0	6,925	38.4
Revenue Not Available					
2019	13.3	0	0.0	0	0.0
2020	10.8	181	68.6	13,744	50.9
2021	10.7	48	34.0	2,585	14.3
<b>Totals</b>					
<b>2019</b>	<b>100.0</b>	<b>53</b>	<b>100.0</b>	<b>14,730</b>	<b>100.0</b>
<b>2020</b>	<b>100.0</b>	<b>264</b>	<b>100.0</b>	<b>26,994</b>	<b>100.0</b>
<b>2021</b>	<b>100.0</b>	<b>141</b>	<b>100.0</b>	<b>18,048</b>	<b>100.0</b>
Source: 2019, 2020 & 2021 D&B Data; Bank Data. Due to rounding, totals may not equal 100.0%					

While the bank's small business lending is below the percentage of D&B small business data for 2019, 2020, and 2021; this is not unreasonable considering the number of loans with "revenue not available." Small business lending to small businesses for 2020 was substantially impacted by the significant number and dollar volume of PPP loans originated. These loans did not require nor did the bank collect GARs. Of the 181 PPP loans originated with no revenue, 140 of those loans representing 77.3 percent had loan amounts of \$50,000 or less. This is significant because in order to qualify for an SBA PPP loan of this amount, the average monthly business payroll expense could not exceed \$20,000 monthly or \$240,000 annually. While business payroll expenses vary by industry and business, most payrolls will fall somewhere between 20.0 and 35.0 percent of gross revenues. It is likely that businesses that qualified for SBA PPP loans in amounts of \$50,000 or less were to very small businesses. In 2021, of the 48 PPP loans with no revenue, 41 of those loans representing 85.4 percent had loan amounts of \$50,000 or less. This provides additional support to demonstrate that the bank is originating small business loans to smaller sized businesses.

## COMMUNITY DEVELOPMENT TEST

The bank demonstrates reasonable performance under the Community Development Test in the Yuma assessment area. Examiners considered the bank's capacity and the availability and need for such opportunities.

## **Community Development Loans**

During the evaluation period, 1BY originated 25 community development loans totaling approximately \$8.1 million benefiting the Yuma assessment area. This included 14 PPP loans totaling \$1.6 million in response to the COVID-19 pandemic. These loans address the community development purposes of economic development activities within the Yuma assessment area. The following table shows the bank's community development lending by purpose.

<b>Community Development Lending</b>										
<b>Assessment Area</b>	<b>Affordable Housing</b>		<b>Community Services</b>		<b>Economic Development</b>		<b>Revitalize or Stabilize</b>		<b>Totals</b>	
	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>
Yuma	1	717	10	5,750	14	1,601	0	0	25	8,068
<i>Source: Bank Data</i>										

Below are notable examples of community development loans made in this assessment area.

- 1BY made two loans to organizations that provide free or low-cost medical services to LMI individuals. The loans provide community services by supporting essential healthcare to underserved populations by the border and well-being services to mentally and physically disadvantaged adults and children. The loans assist in covering operating expenses during the lag time between payments from federal and state funding.
- The bank made loans to an organization that provides emergency food assistance program and food boxes to LMI families. The loans support payroll funding and operating expenses.
- In 2019, the bank made a \$717,000 affordable housing loan with the majority of the units being government subsidized.

## **Qualified Investments**

While the bank made 29 qualified donations totaling approximately \$909,000 that directly benefited the Yuma assessment area, there were no community development investments made due to limited opportunities for investment in this assessment area. Of the total qualified donations, 97.8 percent of the proceeds benefited community service through scholarship grants to LMI qualified students. The following table shows the bank's qualified donations.

<b>Community Development Grants and Donations</b>										
<b>Assessment Area</b>	<b>Affordable Housing</b>		<b>Community Services</b>		<b>Economic Development</b>		<b>Revitalize or Stabilize</b>		<b>Totals</b>	
	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>
Yuma	4	20	25	889	0	0	0	0	29	909
<i>Source: Bank Data</i>										

The following are notable examples of community development donations made in this assessment area.

- The bank donated \$100,000 to an organization that provides emergency and food assistance programs to LMI.
- 1BY made a corporate-donation of \$797,000, to a non-profit scholarship foundation that provides scholarship grants to disabled students and displaced schools targeted to low-income students in the assessment area. This organization matches every donation, which provides a greater impact in assisting educational funds for LMI qualified students.
- The bank donated \$20,000 to organizations that provide affordable housing to low-income families.

### **Community Development Services**

During the review period, 4 bank officers provided 966 hours of financial expertise or technical assistance to 5 community based organizations in the Yuma assessment area. The following table shows the bank's community development service hours by purpose.

<b>Community Development Services</b>					
<b>Assessment Area</b>	<b>Affordable Housing</b>	<b>Community Services</b>	<b>Economic Development</b>	<b>Revitalize or Stabilize</b>	<b>Totals</b>
	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>
Yuma	0	306	0	660	966
<i>Source: Bank Data</i>					

Below are notable examples of community development services provided in this assessment area.

- Three employees provided 660 hours of community development services with organizations that promote economic development through small business loans. These employees serve as Board members, treasurer, and are loan committee members. They provide technical assistance in reviewing business proposals and financial planning and budgeting.
- Two employees provided 306 hours of community development services with organizations that provide community service to LMI communities. The employees provided financial education training on income, expenses, savings, budgeting, and credit. Both are Board members, treasurer, and members of the finance committee.

In addition to the community development services provided, 1BY operates two branches with on-site full-service ATMs in a moderate-income geography in this assessment area.

## SANTA CRUZ ASSESSMENT AREA – Limited-Scope Review

### DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE SANTA CRUZ ASSESSMENT AREA

The Santa Cruz assessment area consists of the non-metropolitan Santa Cruz County which is part of Nogales micropolitan statistical area in southern Arizona. This assessment area contains one of the bank’s five branch offices and is located in a moderate-income CT. Based on 2015 American Community Survey (ACS) Census data, the Santa Cruz assessment area consists of 10 CTs reflecting the following income designations:

- 0 low-income
- 5 moderate-income
- 4 middle-income
- 1 upper-income
- 0 no-income designation

The following table illustrates demographic, housing, and business information within the Santa Cruz assessment area.

Demographic Information of the Assessment Area						
Assessment Area: Santa Cruz Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	10	0.0	50.0	40.0	10.0	0.0
Population by Geography	47,073	0.0	36.2	57.2	6.6	0.0
Housing Units by Geography	18,105	0.0	33.6	55.7	10.7	0.0
Owner-Occupied Units by Geography	10,137	0.0	26.2	62.6	11.2	0.0
Occupied Rental Units by Geography	5,222	0.0	48.8	45.2	6.0	0.0
Vacant Units by Geography	2,746	0.0	32.0	49.9	18.1	0.0
Businesses by Geography	4,738	0.0	41.4	51.1	7.5	0.0
Farms by Geography	130	0.0	16.2	44.6	39.2	0.0
Family Distribution by Income Level	11,568	21.8	19.7	18.5	40.1	0.0
Household Distribution by Income Level	15,359	24.8	15.2	14.8	45.2	0.0
Median Family Income Non-MSAs - AZ		\$44,368	Median Housing Value			\$162,055
			Median Gross Rent			\$604
			Families Below Poverty Level			19.6%
Source: 2015 ACS and 2021 D&B Data Due to rounding, totals may not equal 100.0% (* ) The NA category consists of geographies that have not been assigned an income classification.						

According to 2021 D&B data, there are 4,738 businesses in the assessment area. Gross annual revenues reported for these businesses are as follows:

- 85.3 percent have revenues of \$1 million or less
- 4.5 percent have revenues of over \$1 million
- 10.2 percent have revenues unknown

The highest employment sectors include service businesses at 26.3 percent followed by retail trade at 13.2 percent; transportation and communication at 12.9 percent; and finance, insurance and real estate at 8.9 percent. Moreover, 64.8 percent of area businesses have four or fewer employees with 90.8 percent operating from a single location.

As of July 22, 2022, the FFIEC Distressed or Underserved Nonmetropolitan Middle-Income Geographies list designated all 10 of Santa Cruz's middle-income CTs as distressed for unemployment and poverty. In addition, two designated disasters were declared during the review period: COVID-19 Pandemic in January 2020 and wildfires in August 2020.

## **CONCLUSIONS ON PERFORMANCE CRITERIA IN THE SANTA CRUZ ASSESSMENT AREA**

### **LENDING TEST**

The bank's lending performance in the Santa Cruz assessment area is consistent with the performance in the full-scope Yuma assessment area. While the bank's Borrower Profile reflects reasonable performance, the excellent performance under the Geographic Distribution supports this conclusion. The bank's performance was rated satisfactory at the previous full-scope evaluation.

During this review period, 1BY originated 110 small business loans totaling \$20.4 million in the assessment area. While the assessment area has no low-income CT, examiners reviewed the moderate-income CT for Geographic Distribution. The bank's performance was excellent which is consistent from the prior evaluation. 1BY consistently exceeded the demographic data with an increasing trend.

While the bank's performance under borrower profile did not exceed demographic data during this evaluation period, it is reasonable because of the 110 small business loans, 78 were PPP loans representing 71.0 percent, totaling \$8.8 million. The bank did not collect revenues for the 40 PPP loans in 2020 and 6 PPP loans in 2021. Of the 46 loans with no revenues for both years, 30 had loan amount of \$50,000 or less and were made to very small businesses, totaling \$851,500. These borrowers would likely have GARs of \$1 million or less. This reflects positively on the small business borrower penetration.

### **COMMUNITY DEVELOPMENT TEST**

The bank's community development performance in the Santa Cruz assessment area is consistent with the performance in the full-scope Yuma assessment area. The large majority of community development loans were PPP loans that revitalized or stabilized low- and moderate-income areas by retaining businesses and jobs during the COVID-19 pandemic. While the bank has no investments in

the assessment area due to limited opportunities, the bank made a corporate donation for \$283,000 to a scholarship foundation that provides scholarship grants to disabled and qualified low-income students during the review period.

The following table shows the bank's community development activities in this assessment area during the review period.

<b>Activity</b>	<b>#</b>	<b>\$ (000s)</b>
Community Development Loans	54	6,641
Investments – Debt/Equity	0	0
Donations	11	283
CD Services - hours	56	-
<i>Source: Bank Data</i>		

## **APPENDICES**

### **INTERMEDIATE SMALL BANK PERFORMANCE CRITERIA**

#### **Lending Test**

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by considering the following criteria:

- 1) The bank's loan-to-deposit ratio, adjusted for seasonal variation, and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments;
- 2) The percentage of loans, and as appropriate, other lending-related activities located in the bank's assessment area(s);
- 3) The geographic distribution of the bank's loans;
- 4) The bank's record of lending to and, as appropriate, engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes; and
- 5) The bank's record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment area(s).

#### **Community Development Test**

The Community Development Test considers the following criteria:

- 1) The number and amount of community development loans;
- 2) The number and amount of qualified investments;
- 3) The extent to which the bank provides community development services; and
- 4) The bank's responsiveness through such activities to community development lending, investment, and service needs.

## GLOSSARY

**Aggregate Lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**American Community Survey (ACS):** A nationwide United States Census survey that produces demographic, social, housing, and economic estimates in the form of five year estimates based on population thresholds.

**Area Median Income:** The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

**Assessment Area:** A geographic area delineated by the bank under the requirements of the Community Reinvestment Act.

**Census Tract:** A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

**Combined Statistical Area (CSA):** A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

**Community Development:** For loans, investments, and services to qualify as community development activities, their primary purpose must:

- (1) Support affordable housing for low- and moderate-income individuals;
- (2) Target community services toward low- and moderate-income individuals;
- (3) Promote economic development by financing small businesses or farms; or
- (4) Provide activities that revitalize or stabilize low- and moderate-income geographies, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies.

**Community Development Corporation (CDC):** A CDC allows banks and holding companies to make equity type of investments in community development projects. Institution CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community. Institution CDCs are also tailored to their financial and marketing needs. A CDC may purchase, own, rehabilitate, construct, manage, and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization.

**Community Development Financial Institutions (CDFIs):** CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, micro enterprise funds, and community development venture capital funds.

A certified CDFI must meet eligibility requirements. These requirements include the following:

- Having a primary mission of promoting community development;
- Serving an investment area or target population;
- Providing development services;
- Maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means;
- Not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

**Community Development Loan:** A loan that:

- (1) Has as its primary purpose community development; and
- (2) Except in the case of a wholesale or limited purpose institution:
  - (i) Has not been reported or collected by the institution or an affiliate for consideration in the institution's assessment area as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan (as described in Appendix A to Part 203 of this title); and
  - (ii) Benefits the institution's assessment area(s) or a broader statewide or regional area including the institution's assessment area(s).

**Community Development Service:** A service that:

- (1) Has as its primary purpose community development;
- (2) Is related to the provision of financial services; and
- (3) Has not been considered in the evaluation of the institution's retail banking services under § 345.24(d).

**Consumer Loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Core Based Statistical Area (CBSA):** The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

**Distressed Middle-Income Nonmetropolitan Geographies:** A nonmetropolitan middle-income geography will be designated as distressed if it is in a county that meets one or more of the following triggers:

- (1) An unemployment rate of at least 1.5 times the national average;
- (2) A poverty rate of 20 percent or more; or
- (3) A population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the 5-year period preceding the most recent census.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family. Other family is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

**FFIEC-Estimated Income Data:** The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

**Full-Scope Review:** A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

**Home Mortgage Loans:** Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

**Housing Unit:** Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

**Limited-Scope Review:** A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area.

Performance under applicable tests is often analyzed using only quantitative factors (e.g., geographic distribution, borrower profile, total number and dollar amount of investments, and branch distribution).

**Low-Income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

**Low Income Housing Tax Credit:** The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended. It is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department distributes low-income housing tax credits to housing credit agencies through the Internal Revenue Service. The housing agencies allocate tax credits on a competitive basis.

Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits. Or, they may sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains throughout the compliance period, usually 30 years.

**Market Share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**Median Income:** The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

**Metropolitan Division (MD):** A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

**Metropolitan Statistical Area (MSA):** CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

**Multi-family:** Refers to a residential structure that contains five or more units.

**Nonmetropolitan Area** (also known as **non-MSA**): All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified Investment:** A lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rated Area:** A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

**Rural Area:** Territories, populations, and housing units that are not classified as urban.

**Small Business Investment Company (SBIC):** SBICs are privately-owned investment companies which are licensed and regulated by the Small Business Administration (SBA). SBICs provide long-term loans and/or venture capital to small firms. Because money for venture or risk investments is difficult for small firms to obtain, SBA provides assistance to SBICs to stimulate and supplement the flow of private equity and long-term loan funds to small companies. Venture capitalists participate in the SBIC program to supplement their own private capital with funds borrowed at favorable rates through SBA's guarantee of SBIC debentures. These SBIC debentures are then sold to private investors. An SBIC's success is linked to the growth and profitability of the companies that it finances. Therefore, some SBICs primarily assist businesses with significant growth potential, such as new firms in innovative industries. SBICs finance small firms by providing straight loans and/or equity-type investments. This kind of financing gives them partial ownership of those businesses and the possibility of sharing in the companies' profits as they grow and prosper.

**Small Business Loan:** A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

**Small Farm Loan:** A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

**Underserved Middle-Income Nonmetropolitan Geographies:** A nonmetropolitan middle-income geography will be designated as underserved if it meets criteria for population size, density, and dispersion indicating the area's population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

**Upper-Income:** Individual income that is 120 percent or more of the area median income, or a median family income that is 120 percent or more in the case of a geography.

**Urban Area:** All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, "urban" consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

"Urban" excludes the rural portions of "extended cities"; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.